OUR FIRST BILLION DOLLAR YEAR · THE SOUTHLAND CORPORATION

ANNUAL REPORT 1971

1000000000


EMBASSY
OAK FARMS
CABELL'S
MIDWEST FARMS
WANZER'S
Reddy Ice
HORTENS
smileys
SOUTHLAND FOOD CENTERS
HARBISONS
VELDA FARMS
CHEMICAL DIVISION
CHEMICAL
SPRECKELS

OUR COMPANY

The Southland Corporation is the country's largest operator and franchisor of self-service convenience food stores and a major processor and distributor of dairy products. It also operates other food stores, sandwich shops, and candy shops. Other operations of the company include fleet leasing and the manufacture and distribution of fine chocolates and other candies, food additives, basic flavor compounds, fountain syrups, commercial and packaged ice, industrial coatings, cleansing and sanitizing agents, and paint.

At the close of 1971, Southland had retail store operations in 36 states, the District of Columbia, three provinces of Canada, Mexico, and the United Kingdom. The Dairy Divisions operated in 27 states and the District of Columbia.

THE SOUTHLAND CORPORATION
ANNUAL REPORT 1971

CONTENTS

CORPORATE DATA

STOCK TRANSFER AGENTS:
First National Bank in Dallas, Dallas, Texas
The Chase Manhattan Bank, N.A.
New York City

STOCK REGISTRARS:
Texas Bank & Trust Company of Dallas
Dallas, Texas
First National City Bank, New York City

TRUSTEE, REGISTRAR AND PAYING AGENT
5½% CONVERTIBLE SUBORDINATED DEBENTURES:
The Chase Manhattan Bank, N.A.
New York City

SECURITIES TRADED—OTC

Common Stock—
NASDAQ Symbol—SOLD

5½% Conv. Sub. Debs.—
NASDAQ Symbol—SOLDG

ANNUAL MEETING:
The annual meeting of the Company will be held at ten a.m., Wednesday, April 26, 1972, in the General Office Auditorium, North Wing, 2828 North Haskell Avenue, Dallas, Texas.

MAILING ADDRESS:
P.O. Box 719, Dallas, Texas 75221

TELEPHONE:
214/828-7011

Loft's
CANDY SHOPS

7-ELEVEN®
FOOD STORES

BARRICINI
CANDY SHOPS

SOUTHLAND-
CAVENHAM LTD.

GRISTEDE'S
FOOD STORES

BRADSHAWS
SUPER MARKETS

Pak a sak
FOOD STORES

Charles & Co.
PURVEYORS OF FINE FOODS
CHARLES & CO.

CALENDAR HIGHLIGHTS

JANUARY
ANNOUNCED RECORD REVENUES AND EARNINGS FOR FISCAL 1970

FEBRUARY
STORES AND DAIRIES ASSISTED VICTIMS OF CALIFORNIA EARTHQUAKE

MARCH
ANNOUNCED PLANS TO CONSTRUCT 11-STORY OFFICE TOWER AT CORPORATE HEADQUARTERS

APRIL
ANNUAL STOCKHOLDERS MEETING

FIRST SUPER 7 OPENED IN MONTERREY, MEXICO

MAY
BARRICINI BEGAN OPERATING 69 LOFT CANDY SHOPS

JUNE
50% STOCK DIVIDEND

JULY
4000TH CONVENIENCE STORE OPENED

153 PAK-A-SAK STORES JOINED SOUTHLAND

AUGUST
REGIONAL DISTRIBUTION CENTER OPENED

HUDGINS TRUCK RENTAL COMPANIES ACQUIRED

SEPTEMBER
ENTERED EUROPEAN MARKET

$50 MILLION FINANCING ARRANGED

OCTOBER
SECONDARY OFFERING

NOVEMBER
3% STOCK DIVIDEND

BANCROFT DAIRY COMPANY PURCHASED

DECEMBER
OUR FIRST BILLION DOLLAR YEAR

	YEAR ENDED DECEMBER 31	
FOR THE YEAR	**1971**	**1970**
Total Revenues	**$1,085,107,334**	$986,579,613
Earnings Before Extraordinary Item	**$ 17,299,759**	$ 14,895,010
Extraordinary Item	**496,836**	—
Net Earnings	**$ 17,796,595**	$ 14,895,010
Per Share*		
Earnings Before Extraordinary Item	**$ 1.30**	$ 1.14
Extraordinary Item	**.04**	—
Net Earnings	**$ 1.34**	$ 1.14
Cash Dividends	**$ 2,423,341**	$ 1,887,610
AT YEAR-END		
Net Working Capital	**$ 83,689,139**	$ 79,855,948
Current Ratio	**2.08 to 1**	2.07 to 1
Long-Term Debt	**$ 95,191,759**	$ 97,298,984
Stockholders' Equity	**$ 137,132,383**	$113,285,032
Average Shares Outstanding	**13,280,654**	13,043,744
Book Value Per Share*	**$ 10.33**	$ 8.69
Number of Stockholders	**8,866**	8,249
Number of Employees	**21,500**	18,900
Annual Dividend Rate Per Share	**$ .20**	$ .16

Includes for both years the results of businesses acquired on a pooling of interests basis.
*Based on average number of shares outstanding during the period after adjusting for all stock dividends and splits.

An excess of one billion dollars in total revenues leads the list of numerous achievements by your company during 1971. This coveted goal was attained three years ahead of our time schedule and generated the highest profits and earnings per share in our history. Other significant achievements included our initial entry into the European market, the opening of our first regional distribution center, expansion into new and important domestic markets, the arrangement of major new financing, and the addition of 450 convenience stores, supermarkets, and candy shops.

Total revenues for the year were $1,085,107,334, an increase of 10% over last year's revenues of $986,579,613.

Net earnings before extraordinary item were $17,299,759, a 16.1% increase over 1970 earnings of $14,895,010. Total net earnings, up 19.5% for the year were $17,796,595, which includes a $496,836 extraordinary item of income realized from the disposition of our

JOHN P. THOMPSON, left, chairman of the board and chief executive officer; H. E. HARTFELDER, president

investment in territorial franchise rights to operate Baskin-Robbins ice cream shops.

Per share earnings for the year were $1.34, including four cents from the extraordinary item, computed on the basis of 13,280,654 average shares outstanding. This compares with 1970 adjusted per share earnings of $1.14.

Cash dividends paid during the year were $2,423,341 compared with $1,887,610 for 1970. In April your board of directors declared a 50% stock dividend of 4,076,960 shares which was paid June 1, 1971. In addition, a 3% stock dividend of 393,895 shares was paid in November, 1971. There were 8,866 stockholders and 1,103 debenture holders at year-end.

During the year, your company invested $31.5 million in property, plant and equipment, compared with $28.3 million in 1970. Expansion plans for 1972 call for a sharply increased capital expenditure program. To partially finance these expenditures, the company has recently signed revolving credit agreements in the amount of $50 million with two banks.

On October 21, 1971, a secondary offering of 596,414 shares of Southland common stock became effective. Of the shares offered, 452,723 were sold by certain institutional investors upon conversion and retirement of $6,600,000 of the company's Convertible Subordinated Notes. The balance of 143,691 shares was sold by individuals who received Southland common stock in recent acquisitions. No part of the proceeds from the sale of these shares was received by Southland.

Major expansion included our initial entry into the European market through the purchase of a 50% interest in an outstanding chain of 370 specialty shops operating throughout England and Scotland. In early 1972, further penetration in this market occurred with the purchase of a 50% interest in a corporation formed to acquire a controlling interest in Wright's Biscuits Ltd. and Moores Stores Ltd. which operate approximately 840 retail grocery outlets in England, Scotland, and Wales.

The Pak-A-Sak chain of 153 convenience stores joined Southland in July. Other additions during the year included the four Hudgins Truck Rental companies, 17 convenience stores in Dayton, Ohio, 69 Loft candy shops, and the dairy operations of Bancroft Dairy Company, of Madison, Wisconsin, and Rock City Ice Cream Co., of Nashville, Tennessee.

A review by management indicated the desirability of consolidating some of our dairy operations and realigning the organizational structure in certain of our store operations for greater efficiency and economy. In the first phase of this reorganization, now complete, the number of store divisions was increased from seven to eleven, and two former Division Managers were promoted to new positions as Regional Managers. This major reinforcement of management is expected to provide a sound foundation for future expansion.

Construction of a new 11-story office tower began in early fall. Scheduled for completion in spring, 1973, the new building will connect

the present general offices. The entire complex of approximately 200,000 square feet will satisfy the need for space to centralize and accommodate our general office departments and to provide for anticipated growth during the next several years.

As we formulate our plans for reaching two billion dollars a year, we believe that Southland's business philosophy and tradition of leadership will enable it to maintain its position in the fast-growing convenience food store field. Although we are presently operating under the general economic uncertainties of inflation and governmental controls under the Phase II programs, we are confident that The Southland Corporation will continue to achieve its sales and profit objectives.

We are grateful to you, our stockholders, customers, and fellow employees, for your help in making 1971 the most successful year in Southland's history.

Very truly yours,

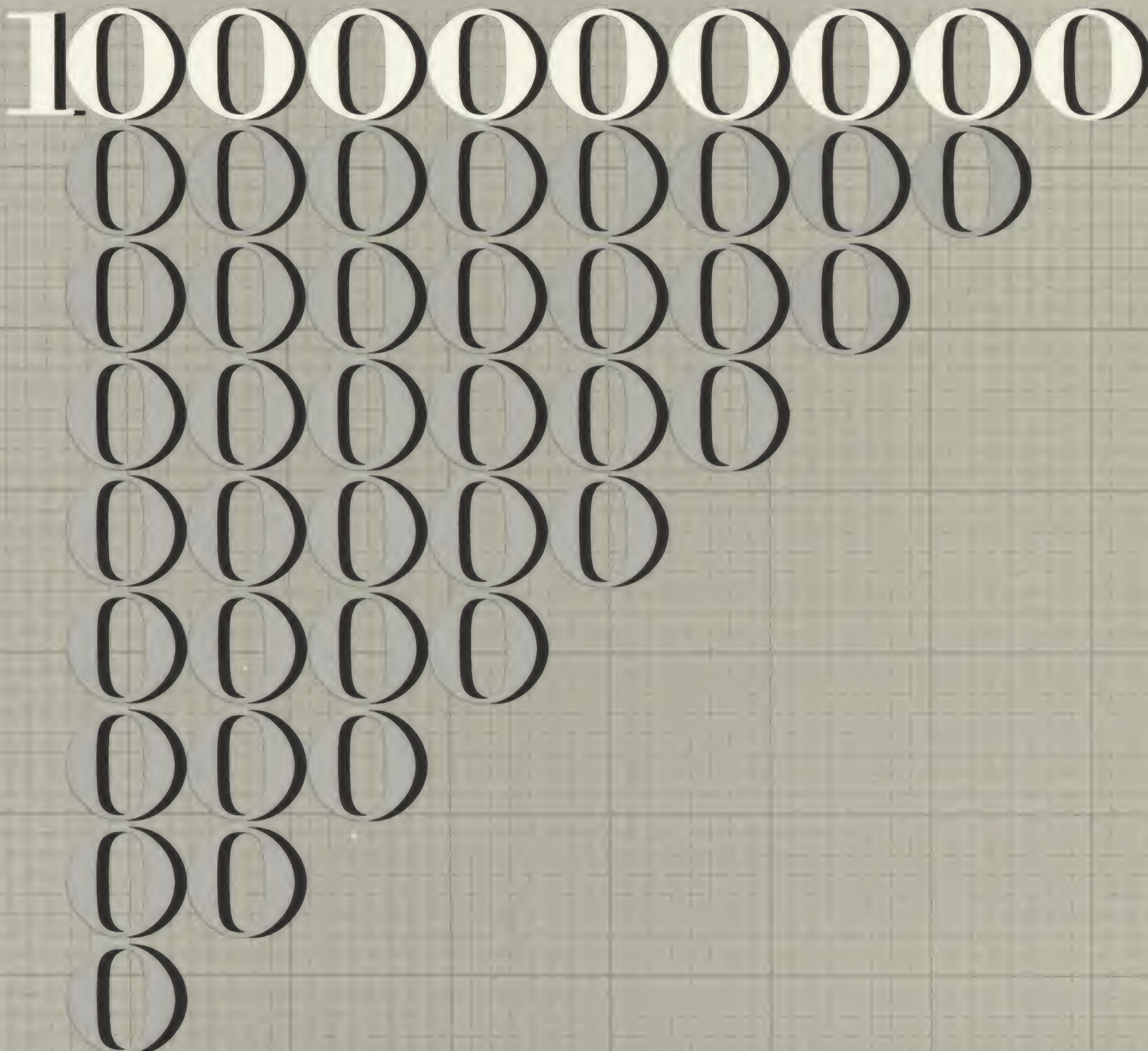
John P. Thompson

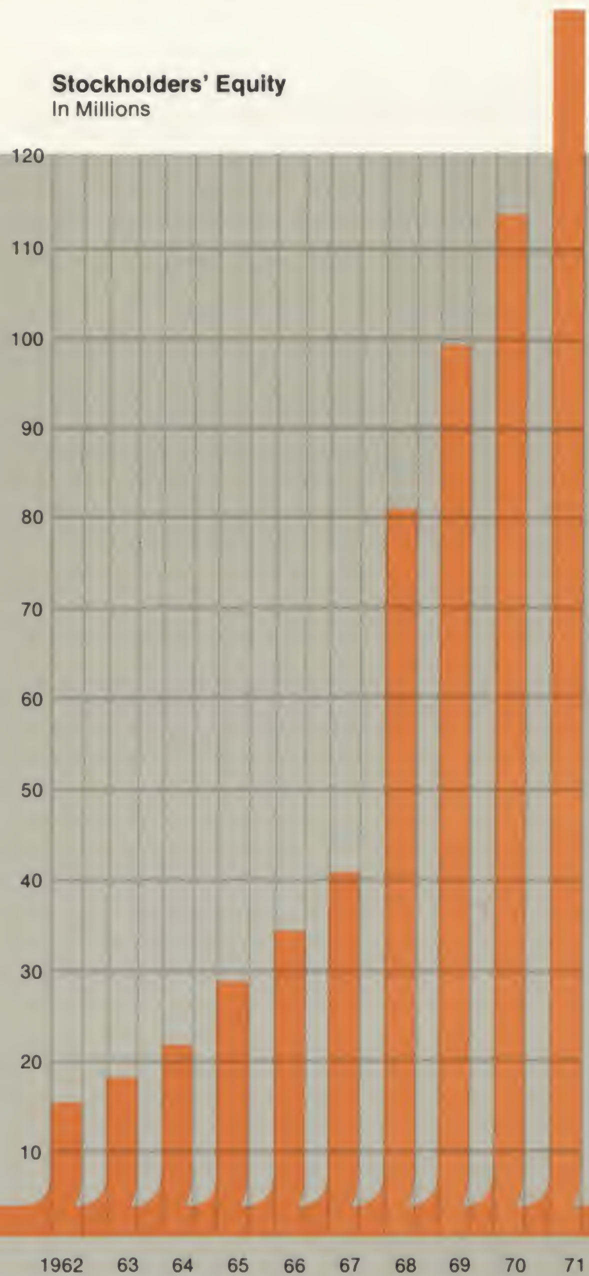
JOHN P. THOMPSON, *CHAIRMAN*

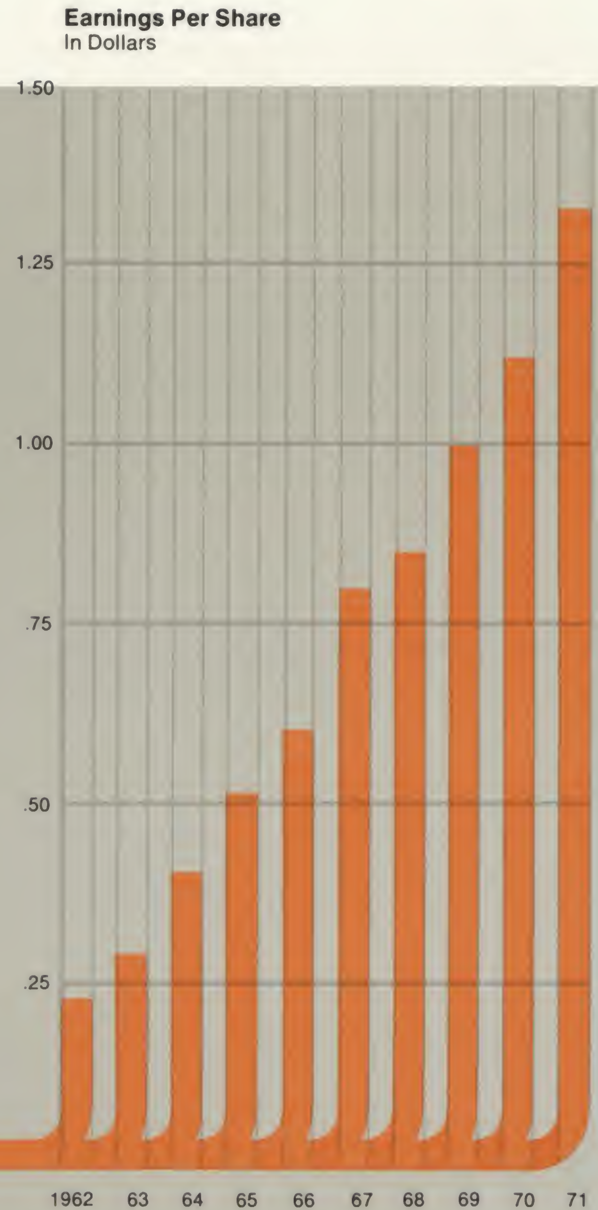
H. E. Hartfelder

H. E. HARTFELDER, *PRESIDENT*

OUR FIRST BILLION DOLLAR YEAR

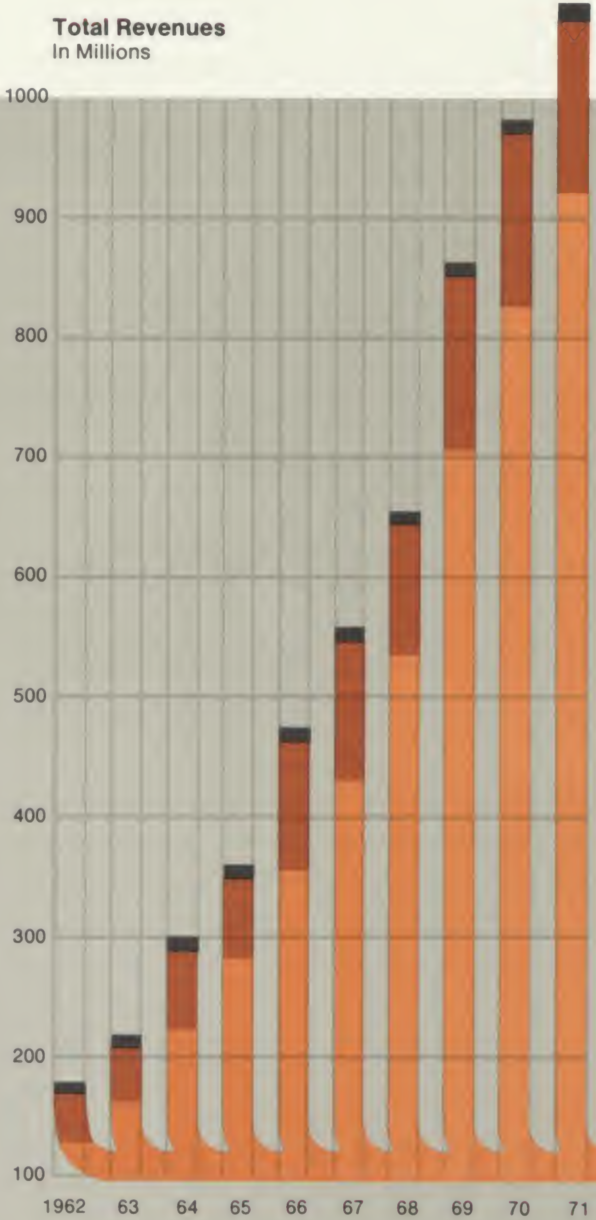



Stockholders' Equity
In Millions
120
110
100
90
80
70
60
50
40
30
20
10
1962
63
64
65
66
67
68
69
70
71

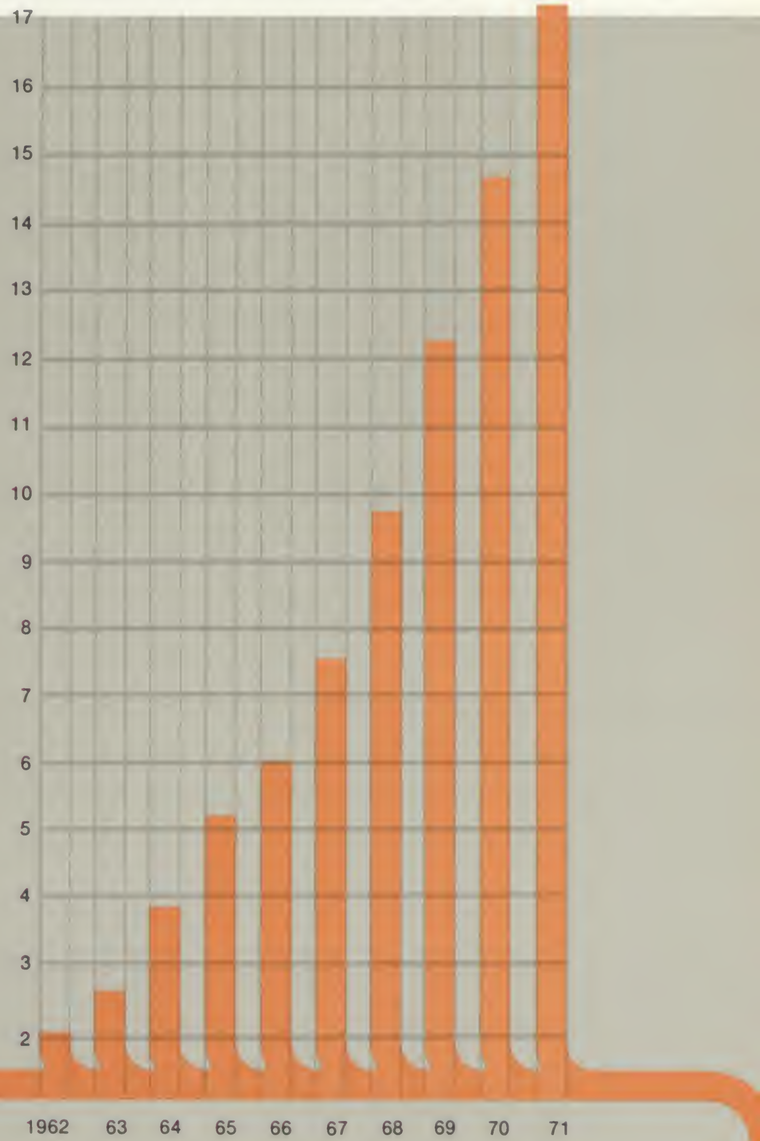

Earnings Per Share
In Dollars
1.50
1.25
1.00
.75
.50
.25
1962
63
64
65
66
67
68
69
70
71

STORES DAIRIES OTHERS

Total Revenues
In Millions



Net Earnings (After Tax)
(Before Special Items) In Millions



TEN YEARS OF GROWTH
The Southland Corporation and Subsidiaries

Notes:

(1) Includes The Southland Corporation and subsidiaries. Data for businesses acquired under the pooling of interests concept have been included for years prior to their acquisition by The Southland Corporation.

(2) Net earnings include special items of $520,000 (addition) in 1967, $380,914 (addition) in 1969 and $496,836 (addition) in 1971.

(3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits and shares issued in exchange for businesses acquired under the pooling of interests concept.

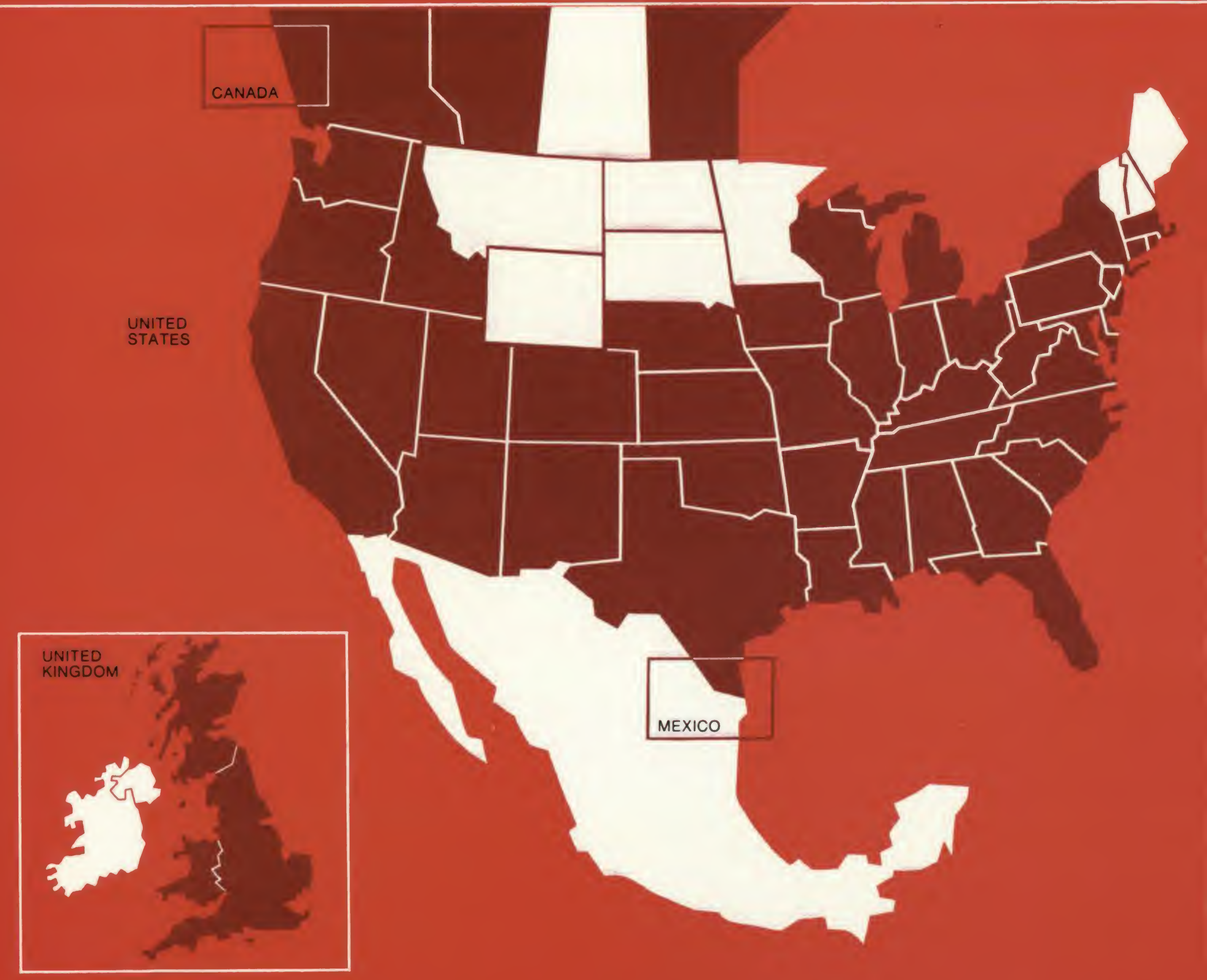
(4) Cash dividends and number of stockholders relate to the parent company only.

	1962	1963
Total Revenues	$ 179,694	$ 226,680
Net Earnings (Note 2)	2,166	2,696
Net Working Capital	4,615	8,467
Property, Plant & Equipment (Net)	17,372	22,967
Long-Term Debt	6,851	13,837
Stockholders' Equity	15,601	18,129
Cash Dividends (Note 4)	765	888
Average Shares Outstanding (Note 3)	9,457,776	9,635,479
Number of Stockholders (Note 4)	376	514
Per Share of Common Stock (Note 3):		
Net Earnings	.23	.28
Cash Dividends (Note 4)	.08	.09
Book Value	1.65	1.88
Earnings as a percent of Stockholders' Equity	13.88	14.87

(Dollars in thousands except per share figures)

1964	1965	1966	1967	1968	1969	1970	1971
$ 301,210	$ 365,166	$ 480,571	$ 563,540	$ 665,764	$ 874,220	$ 986,580	**$ 1,085,107**
3,967	5,237	6,105	8,215	9,862	12,817	14,895	**17,797**
28,472	33,277	41,588	41,537	56,906	76,487	79,856	**83,689**
25,107	27,390	47,620	68,481	96,607	132,494	143,610	**155,688**
31,451	30,976	52,527	63,512	63,887	97,913	97,299	**95,192**
22,659	28,880	33,931	41,630	81,170	99,546	113,285	**137,132**
1,081	1,106	1,250	1,342	1,557	1,796	1,888	**2,423**
9,817,789	10,057,767	10,221,290	10,297,806	11,556,597	12,845,159	13,043,744	**13,280,654**
980	1,228	2,111	2,816	7,457	8,079	8,249	**8,866**
.40	.52	.60	.80	.85	1.00	1.14	**1.34**
.11	.11	.12	.13	.13	.14	.14	**.18**
2.31	2.87	3.32	4.04	7.02	7.75	8.69	**10.33**
17.51	18.13	17.99	19.73	12.15	12.88	13.15	**12.98**

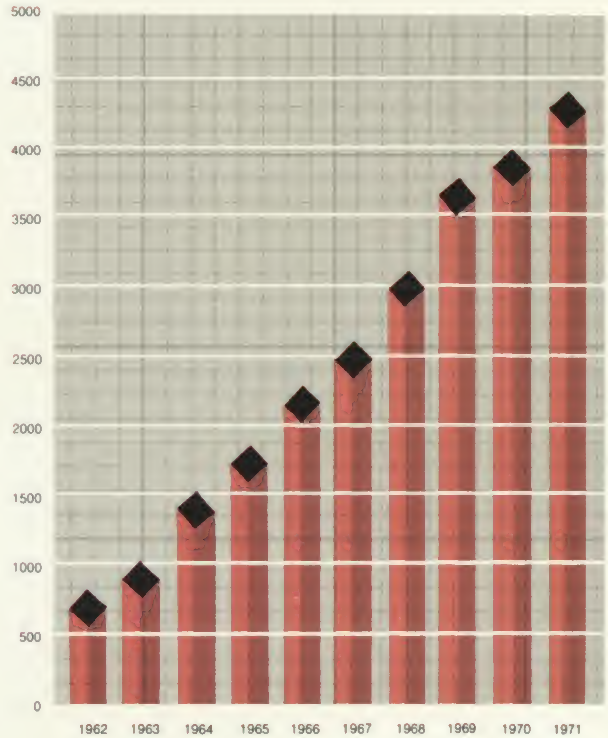
SOUTHLAND OPERATIONS



The Store Divisions' sales for the year were $930,924,000, an increase of 11.9% over last year, and represented 85.8% of corporate revenues. At year-end, 4,460 stores were in operation in 36 states, the District of Columbia and three provinces of Canada. During the year, 546 stores were added and 96 were closed because of lease expirations, changing local economic conditions, and other operational reasons.

Sales of the Dairy Divisions, including intercompany sales, were $199,728,000 with operating profits up 11.8% over 1970. At December 31, Southland's Dairy Divisions had 30 processing plants and 89 principal distribution centers operating in 27 states and the District of Columbia.

Sales and revenues from other divisions were $16,691,000, compared with $12,727,000 in 1970, an increase of 31.2%.



At December 31, 1971, store operations included 4,114 convenience food stores, 9 Bradshaws supermarkets, 130 Gristedes and Charles & Co. food stores and sandwich shops and 207 Barricini and Loft candy shops.

STORE OPERATIONS

7-ELEVEN

PAK-A-SAK

GRISTEDE'S

CHARLES & CO.

BARRICINI

LOFT'S

BRADSHAWS

Eleven flavors of 7-Eleven soft drinks are distributed through our convenience stores.

ADOHR FARMS

BANCROFT

BRIGGS

CABELL'S

EMBASSY

HARBISONS

HORTENS

MIDWEST FARMS

OAK FARMS

SPRECKELS

VELDA FARMS

WANZER'S

Original and tempting flavors of luxurious Barricini ice cream were introduced in selected markets during the fall of 1971. In the near future, these fine products will be available in other areas.

OTHER OPERATIONS

On August 2, 1971, Southland's first regional distribution center, located in Orlando, Florida, began delivering merchandise to 29 7-Eleven stores. By the end of the year this highly automated facility was serving 562 Florida stores.

Southland's oldest division, Reddy-Ice, maintains eight plants in Texas, one in Florida, and one in Georgia, with a combined capacity of 1,676,000 pounds of ice per day. Both block and processed ice are manufactured and distributed to 7-Eleven stores and to outside customers.

Cleaning compounds, sanitizing agents, food stabilizers, flavor concentrates, and other specialty products, largely for industrial customers, are manufactured by our Chemical Division and distributed nationally and in Mexico, Puerto Rico, and the Virgin Islands. The chemical operations utilize four facilities in Texas as well as offices in Georgia and California.

NEW OPERATIONS

In keeping with its policy of continued growth and expansion, The Southland Corporation not only enlarged its existing operations during 1971, but also entered several new market areas.

The most significant of these in store operations was the addition of the Pak-A-Sak chain of 153 convenience food stores located in the bayou country of Louisiana, on the Gulf Coast of Alabama and Mississippi, and on the beaches of Florida. Also, we entered the Dayton, Ohio market area by assuming operation of 17 convenience food stores previously operated by Convenient Industries of America, Inc.

Southland expanded its Barricini candy operations with the purchase of a substantial portion of the business of Loft Candy Corporation, and assumed operation of 69 Loft candy shops in New York, New Jersey, Connecticut, Pennsylvania, West Virginia, and Maryland. Since opening its first retail shop in 1869, Loft has attained an outstanding reputation for maintenance of quality standards in its candy products.

We also entered new market areas with the purchase of Bancroft Dairy Company of Madison, Wisconsin, which distributes products in sixteen states, some of which had not previously been served by Southland. In addition, we purchased the ice cream operations of Rock City Ice Cream Co., based in Nashville, Tennessee.

With the purchase of the four Hudgins Truck Rental companies, headquartered in Fort Worth, Texas, and with facilities also in Dallas, Arlington, and Houston, Southland entered a new business field. The Hudgins fleet of more than 750 trucks is now serving some of our own operations as well as other companies.

LOOKING AHEAD


FOOD INDUSTRY
SURVEYS
CONVENIENCE
STORE
GROWTH
4%
5%
1972
1973
1974
1975

Although there has been tremendous growth in the convenience food store field during the past decade, industry surveys indicate that the number of such stores will more than double during the next five years, and that their sales, which presently account for 3% of total grocery sales in the nation, will increase to approximately 6%.

In preparation for this increase and to plan for corporate growth, Southland's divisional management prepare annual projections for their areas of operation. These forecasts are the basis for establishing long range corporate goals and for planning the financing, personnel requirements, organizational structure, and operational expansion necessary to accomplish these goals. They also provide a basis for advance planning of market penetration in both new and existing operating areas, which includes surveys of real estate values, area economics, and trends in population and construction.

The selection of individual sites involves detailed analysis of the surrounding trade area, traffic patterns, population, and competition. Each location is reviewed and statistically analyzed to determine its probable contribution to the company's sales and profits.

Southland's architects look to the future in designing stores, processing plants, and office buildings which assure efficient and economical operation while providing for expansion. Automated dairy plants are equipped, not only to save time and minimize labor, but also to maintain maximum safety standards and anticipate increasingly rigid health requirements. Equipment and fixtures are selected to insure product quality and reliable shelf-life.

Realistic planning requires maximum use of technology, surveys, tests, projections, computer data, and management expertise. As we formulate plans for reaching our second billion in annual revenues, we are applying these modern management techniques to the 44-year-old philosophy of Southland's founder, Mr. Joe C. Thompson, whose goal was simply to "give the people what they want, when they want it, where they want it."


A
B
C

PRODUCT DEVELOPMENT

Plans for expansion of fast-food service in our stores include testing a variety of recipes for such favorites as chicken, barbecue, fish and chips, onion rings, pancakes, and pastries. A new test kitchen, recently added to the corporate merchandising department, is equipped and staffed to maintain the highest quality in products we produce and purchase, as well as to determine specifications for new products. Prepared foods are also developed and improved in the three Southland Food Centers which produced and distributed a variety of salads and approximately six million Smiley's sandwiches last year.

Southland's dairies develop, produce, and distribute a complete line of products, including milk, cream, cottage cheese, yogurt, butter, margarine, ice cream, sherbets, dips, salads, and fruit drinks. During 1971, the new "Trimline" products were featured.

Barricini and Loft candy companies produce or distribute a variety of fine chocolates, novelty candies, and, during the past year, introduced the luxurious new Barricini ice creams.

Syrup flavors, developed by our Chemical Division, continue to add variety to our popular semi-frozen drink, "Slurpee." The division also manufactures concentrates for eleven flavors of 7-Eleven soft drinks, which are distributed in both cans and disposable bottles for sale in our stores. Sherbet bases, as well as plastic milk containers, cleaning compounds, sanitizing agents, paints and lacquers, are manufactured, both for Southland's operations and for other customers throughout the nation.

In the new corporate Design Studio, displays and packages are designed to promote Southland's controlled label products, including a new line of hosiery, "Sheerly Beloved." Additional products are planned for distribution during 1972.


Oak Farms
Oak Farms
LOWFAT
MILK

"Search and Research" continues to be the philosophy of Southland's corporate and division merchandising staffs. It is their responsibility to search for the products consumers want, for new and better ways to display and promote them, to foresee changing tastes and trends, and to research costs, prices, and improvements in products and equipment.

Depending upon research evidence and sales history, merchandise offered in our stores varies in geographic and economic areas. Stores in the northeastern states sold more than 22 million cups of coffee and hot chocolate during 1971, while New York City pedestrians lined up for a city block during peak periods in the Wall Street area to enjoy hand-dipped ice cream cones from Barricini. New friends of Super 7 in Monterrey, Mexico are served leisurely snacks at sidewalk tables as their northern neighbors take advantage of our 207 self-service gasoline pumps on busy commuter routes. In the deep south, crisp fried chicken, piping hot from micro-wave ovens, is a favorite. Canadian customers enjoy a variety of sausages; California stores do a brisk business in surf boards while those in Colorado are selling warm mittens, snow shovels, and firewood. Fast-foods in the stores range from enchiladas in El Paso to pastries in Atlanta, and Barricini candies are now attractively displayed in approximately 70% of all 7-Eleven stores.

Although products of Southland's dairies are marketed under their regionally known brand names, customers who move into new areas can readily recognize their favorite products by the uniform logo and package designs. Easy product identification and care in placing a particular item next to another on the shelf or in the dairy case are as essential to successful merchandising as providing quality products and fast, friendly service.


BYTE 0
STORAGE DATA
BYTE 1

DISTRIBUTION

Getting the right merchandise to thousands of stores and millions of customers at the right time is a tremendous and increasingly complex job. Milk, bread, and other perishables must be delivered daily, and there is little space for reserve stock in a convenience store. Efficiency and economy in distribution are, therefore, vital to Southland's operations.

Significant savings of time, money, and space are anticipated through expansion of our highly computerized warehousing and distribution system designed to meet the particular needs of convenience stores. The first phase of this system was completed in August, 1971, with the opening of a regional distribution center in Orlando, Florida. 7-Eleven stores in Florida are receiving dry groceries, candy, refrigerated merchandise, tobacco products, and many other non-food items direct from this new 170,000 square foot facility. Stores in other areas are served by carefully selected suppliers who are capable of delivering orders at scheduled times.

Our combined fleet of approximately 3,000 refrigerated trucks in more than fifty major cities delivers dairy products daily to our stores, to numerous hotels, schools, hospitals, and military bases, and to home delivery and wholesale customers.

SERVICE

Convenience stores and dairies, probably more than most businesses, must provide service. Fast service saves time. Accurate service saves money. And friendly service creates customer loyalty. Southland employees and franchise owners are encouraged to continually improve their service, both to customers and to the communities in which they work.

Good training is a prerequisite to good service. At eleven store training schools, store personnel and franchise owners are taught sales counter techniques, inventory control, record keeping, stocking, pricing, and maintenance. In simulated stores, they gain experience in store operation and practice in providing customer service.

Franchise owners operate 1,684 7-Eleven stores. Prior to signing the franchise agreement, potential owners receive a detailed explanation of the 7-Eleven system and, during 1971, special materials and courses were developed to supplement this explanation. These serve a multiple purpose in insuring full disclosure of the 7-Eleven franchise program, in assuring us that franchise owners understand both their commitment and ours, and in reassuring new franchisees of our continuing guidance and service in helping them build profitable businesses.

At our Management Training Center in Dallas, course leaders use management games, case studies, and closed circuit television to encourage student involvement in the practical problems and responsibilities of their positions. Members of the corporate staff regularly meet with trainees at the center to participate in question-and-answer sessions. In addition, more than 800 graduates of the schools are enrolled in continuing education courses developed and produced by the Training Center.

During the past year, Southland sponsored crime prevention seminars, job fairs and career counseling for high school students. We also distributed information on drug addiction, and provided assistance and opportunities to minority citizens and handicapped persons. As our operations grow and expand into new areas, Southland will continue to recognize and fulfill its responsibilities as a corporate citizen.


ELEVEN
CLETIMER
MADE IN SWITZERLAND

SALES PROMOTION AND ADVERTISING

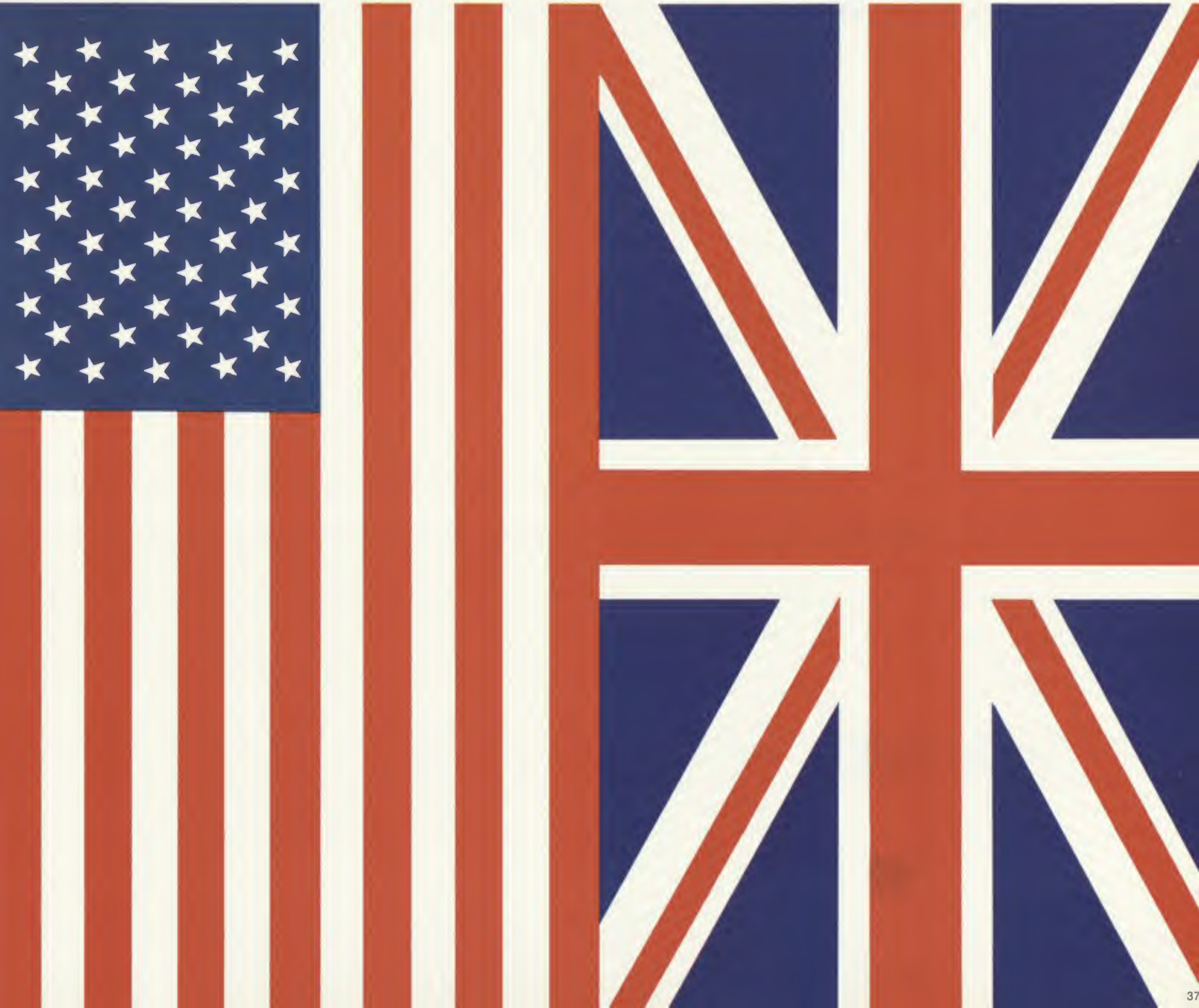
"7-Eleven—It's About Time"

Our customers are people-in-a-hurry. To them convenience means saving time. Sales promotions and advertising emphasize our fast, dependable, courteous service. However, to realize value from our planning, product development, merchandising, distribution, and service, merchandise must be sold.

Members of Southland's advertising staff plan and produce radio-TV spots, store-front banners, point-of-sale posters, and billboards. Usually humorous, often zany, but always noticed, our advertising campaigns have created nation-wide comment, earned awards, made friends, and generated sales. People of all ages and in every part of the country sing, "Oh, Thank Heaven for 7-Eleven." Billboards along major highways and freeways feature our dairy products, while striking magazine advertisements promote our fine candies.

The final test, however, is in the ability of the individual who makes or promotes the actual sale, the one man or woman in the store, the one salesman calling upon a prospective customer. This, our first billion dollar year, confirms their success.

SOUTHLAND GOES INTERNATIONAL

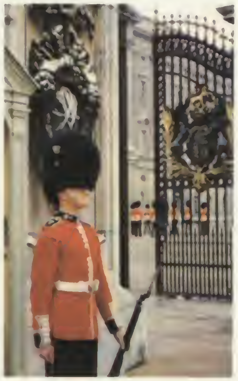



Birrell


CHICKENS


BAKERS
SHOP


RSMcColl
Confectioners
Tobacconists
Newsagents



Southland crossed the Atlantic in 1971 with the acquisition of a 50% interest in the retail operations of Cavenham Limited, a large manufacturer, distributor, exporter, and wholesaler of grocery, bakery, liquor, tobacco, candy, and pharmaceutical products. Approximately 370 specialty shops, operating under the names R. S. McColl, Birrell, Hayes Lyon, and Alex Shops, comprise our joint operation, known as Southland-Cavenham Limited.

These shops open earlier and remain open later than most others in England and Scotland, and specialize in three types of products... candy and other confections, tobacco products, and newspapers and magazines. Other popular items include ice cream, cookies and crackers, soft drinks, mineral waters, paperback books, greeting cards, souvenirs, gifts, toys, stationery, beauty aids, fruits, and some take-out foods.

Our European operations with Cavenham Limited were expanded in early 1972 with the purchase of a 50% interest in Cavenham- Southland Limited formed to acquire the controlling interest in Wright's Biscuits Ltd. and Moores Stores Ltd. This acquisition includes approximately 840 retail grocery outlets located throughout England, Scotland, and Wales which trade under the names Hayes, Moores, Thrift Stores, Hay & Company, T. Seymour, Mead & Company, Burgess Stores, Gallons Limited, Peglers Stores Limited, Edwin Gowers & Son Limited, W. Pink & Sons, Thompsons the Grocers, S. Wills & Sons, and Tower Markets.

Located in commercial and residential areas and in government housing projects, the stores vary in size from small shops of only 700 square feet to larger self-service grocery stores and include some giant supermarkets of 30,000 square feet which sell a full line of groceries, meats, produce, fast-foods, and a wide assortment of non-food items. Several also feature their own bakeries and restaurants.


7
ELEVEN


7
SUPER


CANADA–MEXICO

New Canadian friends of 7-Eleven shop for both staple items and prepared foods at our 49 stores in Calgary, Winnipeg, Edmonton, and Vancouver. Some of the stores are equipped with micro-wave and warming ovens, steamers, and rotisseries. From convenient pass-through windows, customers are served a choice of prepared foods, including chicken, french fries, pastries, and hand-dipped ice cream cones. The staple grocery areas offer a wide variety of accepted brands, dairy products, beauty aids, and household items. New products are constantly being tested in selected stores.

A central commissary was opened in June to serve the eight stores in Vancouver. In its kitchens such favorites as barbecued ribs, chicken, chili, and sandwiches are prepared and frozen, ready to be heated in micro-wave ovens at each store. During the first week of its operation, more than 1,000 hot "Herbie" sandwiches were sold in Vancouver; these popular treats are long french rolls filled with cheese, salami, and our special pizza sauce. A variety of salads is also prepared in the commissary and delivered fresh daily to the stores. Deli cases in the Canadian stores offer a large selection of cheeses, sandwiches, and sausages.

Southland, in conjunction with one of Mexico's outstanding business organizations, opened the first Super 7 store in Monterrey during April, 1971. The new store, located across the highway from the Technological Institute of Monterrey, one of Mexico's leading universities, features merchandise and service similar to those of its counterpart in the United States, 7-Eleven. Prepared foods offered for either take-home or leisurely snacking at tables on the veranda, include hamburgers, ham and cheese sandwiches, fried chicken, coffee, cold drinks, and enchiladas, donas (doughnuts), papas fritas (french fries), bolsas de fruta (bags of fruit), and pan dulce (sweet bread). The second Super 7 store was opened in Monterrey early in 1972, and property has been purchased for additional units.

BOARD OF DIRECTORS

1 Webster Atwell	*of Counsel, Atwell, Malouf, Musslewhite & Bynum*
2 J. Y. Ballard	*Vice President/Independent Consulting Engineer*
3 Walton Grayson, III	*Vice President and General Counsel/ Partner, Grayson & Simon*
4 H. E. Hartfelder	*President*
5 W. W. Overton, Jr.	*Chairman of the Executive Committee of Texas Bank & Trust Company of Dallas*
6 Jere W. Thompson	*Vice President*
7 John P. Thompson	*Chairman of the Board and Chief Executive Officer*
8 Clifford W. Wheeler	*Vice President*

OFFICERS

John P. Thompson	*Chairman of the Board and Chief Executive Officer*
H. E. Hartfelder	*President*
Jere W. Thompson	*Vice President, Store Operations*
M. T. Cochran, Jr.	*Vice President, Dairy Operations*
Clifford W. Wheeler	*Vice President, New Areas*
Walton Grayson, III	*Vice President and General Counsel*
Joseph S. Hardin	*Vice President, Planning and Development*
J. Y. Ballard	*Vice President*
W. K. Ruppenkamp	*Treasurer*
R. G. Smith	*Secretary and Controller*

FINANCIAL STATEMENTS

OUR FIRST BILLION DOLLAR YEAR

1,000,000,000

CONSOLIDATED BALANCE SHEET
The Southland Corporation and Subsidiaries

Assets

	December 31 1971	December 31 1970
Current Assets:		
Cash	$ 38,563,851	$ 30,646,420
Cash investments	—	14,939,315
Accounts and notes receivable (Note 3)	39,366,520	35,838,473
Inventories, at the lower of cost or market	49,076,601	45,044,150
Deposits and prepaid expense	8,649,379	6,852,699
Investment in property (Note 4)	25,561,540	20,955,702
Total Current Assets	161,217,891	154,276,759
Investments in Affiliates (Note 2)	8,371,942	98,000
Other Assets	1,200,133	1,688,331
Property, Plant and Equipment (Notes 5 and 6)	155,688,095	143,610,336
	$326,478,061	$299,673,426

See notes to financial statements.

Liabilities and Stockholders' Equity

	December 31 1971	December 31 1970
Current Liabilities:		
Long-term debt due within one year	**$ 6,718,133**	$ 6,925,762
Accounts payable and accrued expense	**67,302,432**	63,674,190
Income taxes	**3,508,187**	3,820,859
Total Current Liabilities	**77,528,752**	74,420,811
Deferred Credits (Note 7)	**14,437,289**	13,222,811
Reserves for Self Insurance	**2,187,878**	1,445,788
Long-Term Debt, due after one year (Note 6)	**95,191,759**	97,298,984
Contingencies and Commitments (Note 9)		
Stockholders' Equity (Notes 6 and 8):		
Common stock, $.01 par value, authorized 20,000,000 shares, issued and outstanding 13,685,704 and 8,648,707 shares	**136,857**	86,487
Additional paid-in capital	**99,149,745**	78,671,218
Earnings retained in the business	**37,845,781**	34,527,327
	137,132,383	113,285,032
	$326,478,061	$299,673,426

See notes to financial statements.

STATEMENT OF CONSOLIDATED EARNINGS

The Southland Corporation and Subsidiaries

	Year ended December 31	
	1971	**1970**
Revenues:		
Net sales (including franchised stores)	**$1,079,768,102**	$980,986,175
Other income	**5,339,232**	5,593,438
	1,085,107,334	986,579,613
Cost of Sales and Expenses (Note 13):		
Cost of sales and expenses exclusive of items listed below	**976,215,363**	890,526,902
General and administrative expenses	**9,492,513**	7,755,835
Property and equipment rentals (Note 9)	**39,047,928**	34,127,110
Depreciation (Note 5)	**16,246,787**	15,009,366
Interest expense	**5,855,377**	5,777,404
Contributions to employees' savings and profit sharing fund	**3,691,537**	3,300,517
	1,050,549,505	956,497,134
Earnings Before Income Taxes, Equity in Earnings of Affiliates and Extraordinary Item	**34,557,829**	30,082,479
Income Taxes (Note 10)	**17,299,000**	15,187,469
Earnings Before Equity in Earnings of Affiliates and Extraordinary Item	**17,258,829**	14,895,010
Equity in Earnings of Affiliates (Note 2)	**40,930**	—
Earnings Before Extraordinary Item	**17,299,759**	14,895,010
Extraordinary Item—net of income taxes of $219,000 (Note 11)	**496,836**	—
Net Earnings	**$ 17,796,595**	$ 14,895,010
Primary Earnings Per Share (Note 12):		
Before extraordinary item	**$ 1.30**	$ 1.14
Extraordinary item	**.04**	—
Net earnings	**$ 1.34**	$ 1.14
Earnings Per Share—Assuming full dilution (Note 12):		
Before extraordinary item	**$ 1.19**	$ 1.02
Extraordinary item	**.03**	—
Net earnings	**$ 1.22**	$ 1.02

See notes to financial statements.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

The Southland Corporation and Subsidiaries

	Year ended December 31	
	1971	**1970**
Common Stock:		
The Southland Corporation	**$ 81,162**	$ 77,528
Shares issued in poolings	**5,325**	5,989
Balance January 1, restated for poolings	**86,487**	83,157
Exercise of stock options	**750**	667
3% Stock dividend	**3,939**	2,312
Conversion of notes	**4,769**	—
Purchase acquisition (adjustments)	**142**	(9)
Stock split—3-for-2	**40,770**	—
Balance December 31	**136,857**	86,487
Additional Paid-in Capital:		
The Southland Corporation	**78,381,952**	70,436,100
Pooled companies	**289,266**	461,793
Balance January 1, restated for poolings	**78,671,218**	70,897,893
Exercise of stock options	**1,077,480**	858,555
3% Stock dividend	**11,840,486**	6,949,481
Conversion of notes	**7,183,224**	—
Purchase acquisition (adjustments)	**418,107**	(34,711)
Stock split—3-for-2	**(40,770)**	—
Balance December 31	**99,149,745**	78,671,218
Earnings Retained in the Business:		
The Southland Corporation	**30,576,349**	24,497,922
Pooled companies	**3,950,978**	4,067,150
Balance January 1, restated for poolings	**34,527,327**	28,565,072
Net earnings for the year	**17,796,595**	14,895,010
	52,323,922	43,460,082
Less:		
Cash dividends	**2,423,341**	1,887,610
Cash paid in lieu of fractional shares	**210,374**	93,352
3% Stock dividend	**11,844,426**	6,951,793
	14,478,141	8,932,755
Balance December 31	**37,845,781**	34,527,327
Total Stockholders' Equity (Notes 6 and 8)	**$137,132,383**	$113,285,032

See notes to financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION
The Southland Corporation and Subsidiaries

	Year ended December 31	
Source of Funds:	**1971**	**1970**
From operations:		
Net earnings before extraordinary item	**$17,299,759**	$14,895,010
Depreciation	**16,246,787**	15,009,366
Deferred income taxes and other credits	**1,214,478**	2,066,542
Funds provided by operations	**34,761,024**	31,970,918
Extraordinary item	**496,836**	—
Long-term debt	**11,398,085**	5,757,671
Conversion of notes	**7,187,993**	—
Exercise of stock options	**1,078,230**	859,222
Value of shares issued in purchase acquisition	**418,249**	—
Increase in accounts payable, accruals and income tax	**2,576,062**	5,270,329
Property retirements and sales	**3,676,514**	2,039,485
Decrease in investment in property	—	2,906,149
Decrease in cash and cash investments	**7,144,275**	—
Other	—	2,139,114
	$68,737,268	$50,942,888
Application of Funds:		
Payment of long-term debt	**$ 6,954,314**	$ 7,209,230
Conversion of notes	**7,187,993**	—
Cash dividends	**2,423,341**	1,887,610
Cash paid in lieu of fractional shares	**210,374**	93,352
Investment in affiliates	**8,273,942**	—
Property, plant and equipment	**31,494,017**	28,341,621
Increase in cash and cash investments	—	9,496,847
Increase in accounts and notes receivable	**2,900,307**	112,088
Increase in inventories	**3,729,842**	3,545,275
Increase in investment in property	**4,605,838**	—
Net assets of business purchased	**418,249**	—
Other	**539,051**	256,865
	$68,737,268	$50,942,888

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
The Southland Corporation and Subsidiaries
YEARS ENDED DECEMBER 31, 1971 AND 1970

NOTE 1—PRINCIPLES OF CONSOLIDATION:

The financial statements include the assets, liabilities, sales, and costs and expenses of all subsidiaries. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition, while operations of businesses acquired in transactions accounted for as poolings of interest have been included in consolidated earnings for all periods. Intercompany transactions, including those with pooled companies prior to acquisition, have been eliminated.

Investments in United Kingdom and Mexico affiliates (50% owned) are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

In 1970 three companies were acquired in transactions accounted for as poolings of interest. These companies conduct convenience store and/or dairy operations. Operations for the year 1970 include revenues of $17,034,820 and net earnings of $27,469 applicable to these companies for the portions of the year prior to acquisition.

Pak-A-Sak Service Stores, Inc., Hudgins Truck Rental of Houston, Inc., Hudgins Truck Rental, Inc., Hudgins Truck Rental of Arlington, Inc., and Hudgins Cartage Company, Inc. were acquired in 1971 in exchange for 532,500 shares of common stock in transactions accounted for as poolings of interest. These companies conduct convenience store or truck leasing operations. Operations for the year 1971 include revenues of $21,888,123 and net earnings of $450,222 applicable to these companies for the portions of the year prior to acquisition.

Revenues and net earnings for 1970 reported herein, which have previously been reported as $951,901,487 and $14,429,653, have been increased by $34,678,126 and $465,357, respectively, to reflect the 1970 operations of companies acquired in 1971 pooling transactions.

Bancroft Dairy Company was acquired on November 1, 1971 in a transaction accounted for as a purchase.

NOTE 2—INVESTMENT IN FOREIGN AFFILIATES:

On September 30, 1971, the Company acquired a 50% interest in the retail operations of Cavenham Limited in the United Kingdom for approximately $8,146,000 subject to a 20% adjustment upward or downward based upon operating profits through March 31, 1973. These interests were reorganized into Southland-Cavenham Limited, which operates approximately 370 small retail stores located in England and Scotland.

In early 1972, the Company entered into an agreement, conditioned upon the receipt of certain consents and favorable rulings which have now been received, to purchase a 50% interest in Cavenham-Southland Limited which has been formed to acquire controlling interest in Wright's Biscuits Ltd. (Wright's) and Moores Stores Ltd. (Moores). The Wright's and Moores retail grocery groups include approximately 840 retail grocery outlets operating in England, Scotland and Wales. The transaction is expected to require an investment of approximately $11,400,000 by Southland.

Equity in earnings of affiliates represents equity in earnings of Southland-Cavenham for approximately one month inasmuch as the fiscal period for the determination of such equity in earnings differs from the fiscal year of Southland, and is stated net of interest on the Eurodollar loan used to make the investment and of a provision for U.S. income taxes which will apply to dividends when paid to Southland.

NOTE 3—ACCOUNTS AND NOTES RECEIVABLE:

	1971	1970
Trade	$25,139,185	$23,290,822
Franchisee	16,037,069	14,540,221
	41,176,254	37,831,043
Less allowance for doubtful accounts	1,809,734	1,992,570
	$39,366,520	$35,838,473

NOTE 4—INVESTMENT IN PROPERTY:

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Current working funds are used in the construction of new facilities and the Company expects that cash will be realized within a twelve-month period for these assets.

NOTE 5—PROPERTY, PLANT AND EQUIPMENT:

Cost:	1971	1970
Land	$ 18,032,086	$ 17,431,002
Buildings and leaseholds	75,068,974	65,582,718
Machinery and equipment	110,544,018	103,461,053
Vehicles	11,732,278	8,645,132
Construction in process	7,618,361	3,558,901
	222,995,717	198,678,806
Less accumulated depreciation	67,307,622	55,068,470
	$155,688,095	$143,610,336

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such assets, whichever is the shorter.

NOTE 6—LONG-TERM DEBT:

At December 31, 1971, long-term debt and amounts due within one year were as follows:

	Amount outstanding	Current portion	Balance included in long-term debt
5¾% Promissory notes due 1976	$ 13,750,000	$3,437,500	$10,312,500
4%–9% Real estate and equipment notes	30,847,892	3,280,633	27,567,259
5% Convertible subordinated notes due 1984	6,000,000	—	6,000,000
5¾% Convertible subordinated notes due 1987	5,300,000	—	5,300,000
5½% Convertible subordinated debentures due 1989	39,412,000	—	39,412,000
Eurodollar loan	6,600,000	—	6,600,000
	$101,909,892	$6,718,133	$95,191,759

Approximately 22% of the net carrying value of property, plant and equipment is mortgaged. The real estate and equipment notes mature from 1972 to 1995.

The 5% and 5¾% convertible notes and the 5½% convertible debentures may, at the option of the holders, be converted at any time into common stock of the Company at the rates, respectively, of 83.06, 67.75 and 42.02 shares of stock for each $1,000 of principal. As to the notes, these rates decrease to 73.10 and 64.40 shares on January 1, 1975 and December 1, 1977, respectively. At December 31, 1971, there were 2,513,527 shares of common stock reserved for the conversion of the notes and debentures. Principal payments are due annually beginning in 1975, 1978 and 1980 respectively, in amounts equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

During the year, the Company made arrangements to borrow up to $50,000,000 from The Chase Manhattan Bank (National Association) ("Chase") and First National Bank in Dallas. On September 29, 1971, the Company borrowed $6,600,000 Eurodollars under this arrangement, payable in annual installments, maturing in 1978, and bearing interest at 1% per annum over the London interbank offered rate. The other $43,400,000 is available through revolving credit facilities set up with the banks. Up to $11,400,000 of this amount may be borrowed under a Eurodollar revolving credit facility, and $32,000,000, plus any funds not taken down on the Eurodollar facility, are available for domestic borrowings.

The Eurodollar credit facility is payable in annual installments beginning in 1975, terminates in 1978 and bears interest at 1% per annum over the London interbank offered rate.

Under the domestic revolving credit facility the Company may borrow, repay and reborrow up to $32,000,000 at an interest rate equal to ¼% above the prime rate of Chase. On or before July 2, 1973 the banks agree to make a term loan to Southland in an amount up to $32,000,000 plus any then unused portion of the Eurodollar revolving credit facility. The term loan is repayable in twenty quarterly installments commencing January 1, 1974 and bears interest at ½% above the prime rate of Chase.

At December 31, 1971, the aggregate amount of long-term debt maturities is as follows for the years ended December 31: 1972—$6,718,173; 1973—$7,663,061; 1974—$7,582,872; 1975—$7,026,871; 1976—$4,084,012.

The agreements under which the promissory notes, the convertible notes and debentures were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling $30,800,000 at December 31, 1971, were not so restricted.

Other provisions of the agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

NOTE 7—DEFERRED CREDITS:

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the useful life of the assets or the term of the leases, respectively.

Deferred federal income taxes result from the use of accelerated deprecia-

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1970	$4,143,496	$ 6,297,115	$ 715,658	$11,156,269
Provided for the year..........	248,552	2,338,448	170,543	2,757,543
Taken into income ...	(678,045)	—	(12,956)	(691,001)
Balance December 31, 1970	3,714,003	8,635,563	873,245	13,222,811
Provided for the year..........	292,173	1,499,177	143,672	1,935,022
Taken into income ...	(706,894)	—	(13,650)	(720,544)
Balance December 31, 1971	$3,299,282	$10,134,740	$1,003,267	$14,437,289

NOTE 8—STOCK OPTIONS:

At December 31, 1971, options for 189,984 shares of the Company's stock at prices ranging from $5.17 to $31.07, were outstanding, of which 102,955 shares were exercisable. During 1971, 98,312 shares were issued upon exercise of options at prices ranging from $2.60 to $31.07; options were granted for 37,515 shares at a price of $31.07; and options for 8,736 shares expired or were cancelled. During 1970, 105,583 shares were issued upon exercise of options at prices ranging from $1.87 to $19.80; options were granted for 60,425 shares at prices ranging from $19.48 to $22.33; and options for 19,856 shares expired or were cancelled.

An additional 70,713 shares are available for future grants under the employees' stock option plan.

The above information has been adjusted for stock dividends and stock splits.

NOTE 9—LEASE COMMITMENTS:

Certain of the property and equipment used in the Company's business is leased. Minimum rental payments for 1972 under lease agreements in effect as of December 31, 1971, exclusive of taxes and insurance payable by the Company, approximate $27,032,000 for real estate leases and $13,858,000 for equipment leases.

Real estate leases range generally from 15 to 20 years and equipment leases from 5 to 10 years. Future minimum annual rental payments for leases in effect at December 31, 1971, are approximately as follows for each year specified.

Year	Real Estate	Equipment	Total
1976	$18,723,000	$6,318,000	$25,041,000
1981	12,774,000	129,000	12,903,000
1986	8,274,000	—	8,274,000
1991	2,407,000	—	2,407,000
1996	231,000	—	231,000

NOTE 10—INCOME TAXES:

The provision for income taxes is summarized below:

	1971	1970
Federal:		
Current	$13,890,650	$11,550,469
Deferred	1,791,350	2,587,000
State	1,617,000	1,050,000
	$17,299,000	$15,187,469

NOTE 11—EXTRAORDINARY ITEM:

The extraordinary item represents a gain on the sale of Baskin-Robbins territorial franchises.

NOTE 12—EARNINGS PER SHARE:

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends and stock splits and shares issued in exchange for businesses acquired under the pooling of interests concept.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated) and (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds.

NOTE 13—COST OF SALES AND EXPENSES:

Cost of sales and expenses are reported to the Securities and Exchange Commission in accordance with its regulations as follows:

	1971	1970
Cost of goods sold, including buying and occupancy expenses	$ 814,149,924	$746,453,862
Selling, general and administrative expenses	226,852,667	200,965,351
Interest expense	5,855,377	5,777,404
Contributions to employees' savings and profit sharing fund	3,691,537	3,300,517
	$1,050,549,505	$956,497,134

TOUCHE ROSS & CO.

DALLAS FEDERAL SAVINGS BUILDING
DALLAS TEXAS 75201

Board of Directors and Stockholders
The Southland Corporation
Dallas, Texas

We have examined the accompanying consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1971 and 1970, and the related statements of earnings, stockholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Dallas, Texas
February 22, 1972

Certified Public Accountants

THE
SOUTHLAND
CORPORATION

THE SOUTHLAND CORPORATION · 2828 NORTH HASKELL AVENUE · 214/828-7011 · P.O. BOX 719 · DALLAS, TEXAS 75221